

Message Text

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SUBJ: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: STATE 53993

1. FOLLOWING IS NARRATIVE STATEMENT ON PANAMA INVESTMENT CLIMATE:

BEGIN QTE: THE GOVERNMENT OF PANAMA WELCOMES DIRECT FOREIGN INVESTMENT. THE U S DOLLAR IS USED AS THE PAPER CURRENCY OF PANAMA AND THERE ARE NO EXCHANGE RESTRICTIONS. THIS HAS FAVORED PANAMA'S CONTINUED GROWTH AS AN INTERNATIONAL BANKING CENTER. PANAMA IMPOSES FEW RESTRICTIONS ON FOREIGN INVESTORS. NO LIMITATIONS ARE IMPOSED UPON THE EXTENT OF OWNERSHIP BY FOREIGNERS WITH THE EXCEPTION THAT PANAMA'S CONSTITUTION LIMITS THE RIGHT TO ENGAGE IN RETAIL TRADE TO PANAMANIAN CITIZENS. PANAMA'S LABOR CODE PERMITS ONLY 10 PERCENT OF THE ORDINARY WORKERS AND 15 PERCENT OF SPECIALIZED TECHNICAL WORKERS IN A BUSINESS TO BE FOREIGNERS. THE GOVERNMENT SETS MINIMUM WAGE RATES FOR ALL WORKERS ON A GRADUATED SCALE, WITH THE HIGHEST RATES (55 CENTS PER HOUR) APPLICABLE IN THE MAJOR CITIES. THIS INCLUDES THE 15 PERCENT RAISE, EFFECTIVE MAY 1, 1974, DECREED FOR LOWER WAGE EMPLOYEES OF PRIVATE COMPANIES. ALTHOUGH PANAMA HAS PRICE CONTROL

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REGULATIONS, COMPANIES WERE ALLOWED TO INCREASE PRICES TO MAINT-

AIN THEIR PROFIT RATES.

PANAMA'S INDUSTRY INCENTIVES LAW OF 1970 PROVIDES PRIVILEGES AND TAX CONCESSIONS FOR PERIODS UP TO 15 YEARS DEPENDING UPON LOCATION AND WHETHER THE COMPANY PRODUCES ENTIRELY FOR LOCAL CONSUMPTION OR EXPORT. OTHER LEGISLATION PROVIDES SIMILAR INCENTIVES TO INVESTORS IN NEW HOTELS. ALTHOUGH PANAMA'S TRADE POLICY IS DESIGNED TO PROTECT NEW INDUSTRIES BY HIGH IMPORT DUTIES OR QUOTAS ON COMPETING IMPORTS, THIS POLICY HAS NOT ALWAYS BEEN IMPLEMENTED TO THE COMPLETE SATISFACTION OF INVESTORS IN MANUFACTURING ENTERPRISES. PANAMA IMPOSES FEW IMPORT QUOTAS AND IMPORT DUTIES ARE GENERALLY MODERATE. TO ENSURE DOMESTIC SUPPLY THE GOVERNMENT OCCASIONALLY RESTRICTS EXPORTS OF CERTAIN BASIC PRODUCTS.

DURING 1972 AND 1973, ECONOMIC GROWTH AVERAGED 6.5 PERCENT. THE GOVERNMENT HAS RAPIDLY EXPANDED ITS INVESTMENT BUDGET (BY 40 PERCENT TO \$319 MILLION IN 1974) AND HAS PLACED HIGH PRIORITY ON THE AREAS OF AGRICULTURE, TOURISM, TRANSPORTATION AND HOUSING FOR LOWER INCOME FAMILIES. PRESENT GOVERNMENT POLICY IS TO RESERVE PUBLIC UTILITIES TO STATE OWNERSHIP AND TO PARTICIPATE IN CERTAIN OTHER AREAS OF HIGH SOCIAL PRIORITY. THE GOVERNMENT IS PROMOTING DEVELOPMENT OF THE SUGAR INDUSTRY BY ESTABLISHING ITS OWN SUGAR MILLS. FOLLOWING COMPLETION OF THE LA VICTORIA MILL IN 1973, THE GOVERNMENT PLANS THREE MORE SUGAR MILLS AND ALSO A CEMENT PLANT TO ALLEVIATE CEMENT SHORTAGES WHICH HAVE SOMETIMES HAMPERED PANAMA'S CONSTRUCTION INDUSTRY, A LEADING SECTOR OF THE ECONOMY. THE ONLY CASE OF EXPROPRIATION INVOLVED THE FACILITIES OF THE PANAMA POWER AND LIGHT COMPANY FOR WHICH A CASH SETTLEMENT WAS MADE IN FEBRUARY 1973.

THERE ARE 10 OPIC POLITICAL RISK INSURANCE CONTRACTS PRESENTLY IN EFFECT COVERING APPROXIMATELY \$5 MILLION. A RECENT RESTRICTIVE INTERPRETATION BY THE PANAMANIAN GOVERNMENT MAY DISCOURAGE FUTURE OPIC COVERAGE IN PANAMA. ALTHOUGH NEW U S INVESTMENT IN PANAMA CONTINUES, A DECLINE IN TOTAL U S INVESTMENT DURING 1972 IS ATTRIBUTABLE TO THE ABOVE MENTIONED GOVERNMENT PURCHASE OF THE PANAMA POWER AND LIGHT COMPANY. END QUOTE.

2. FOLLOWING ARE STATISTICS ON DIRECT INVESTMENT AS OF 1972
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PUBLISHED BY THE BUREAU OF STATISTICS AND CENSUS OF THE OFFICE OF THE COMPTROLLER GENERAL (NOT PUBLISHED BY SECTOR) REQUESTED
PARAGRAPH 8 (B) REFTEL:

TOTAL \$206.5 MILLION
U.S. \$162.0 MILLION
U.K. 25.0 MILLION
SWITZERLAND 5.4 MILLION

SINCE BUREAU OF STATISTICS DOES NOT INCLUDE CAPITAL INVESTED IN
BANKS, THE EMBASSY'S ESTIMATE, INCLUDING BANKING SECTOR IS AS FOLLOWS

:

TOTAL 260.0

U S 187.5

UK 26.0

COLOMBIA 6.8

SWITZERLAND 5.9

3. THE ABOVE STATISTICS ARE DIFFERENT FROM THOSE CONTAINED IN
THE SURVEY OF CURRENT BUSINESS SINCE GOP STATISTICS DO NOT
INCLUDE INTERNATIONAL HOLDING COMPANIES ESTABLISHED IN PANAMA FOR
TAX PURPOSES BUT WHICH CONDUCT NO BUSINESS OPERATIONS IN
PANAMA.

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